Odey Absolute Return Focus Fund

ODEY
ASSET MANAGEMENT

Fund Manager Report

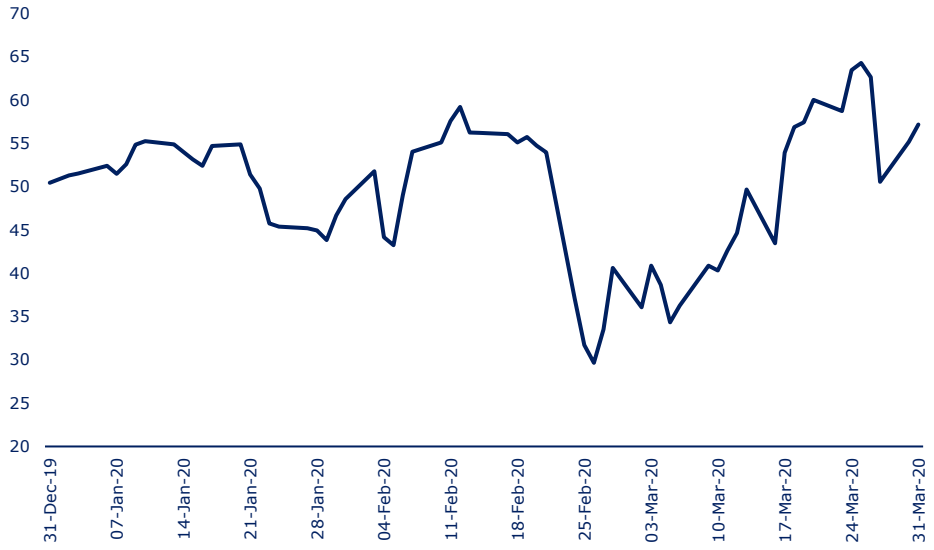
Q1-20 was a dreadful quarter for the market and the fund. The fund lost -24.7%. Losses were entirely driven by our long book materially underperforming the market. The long book contributed loses of -49.23% with negative alpha of -23.8% in the quarter. The short book generated gains of +27.2% with positive alpha of +11.83%. There was also a -3.20% loss on our sterling currency hedges.

The quarter started off poorly for the fund as value continued to underperform and the UK space saw profit taking after the fourth quarter. From the 20th Feb the market then had one of its sharpest sell offs in history caused by the Coronavirus. By the quarter end the MSCI World had fallen -15.7% in sterling and -21.05% in dollars (but far more at the lows) with other markets like the FTSE 250 and the Russell 2000 down -33.4% and -31.8% in dollars respectively. What was disappointing for us was that over this 'sell off' period the fund lost -21.3% due to poor long book performance despite taking on only a relatively small amount of market risk.

What did we do in the quarter?

Directionally we traded our book reasonably well but not in enough size. We increased our net exposure a bit early. As seen in the charts below when the crisis started at the end of February we reduced our net long position quite considerably as we sold airlines, banks and cyclicals and added shorts. Sadly we didn't do enough as we underestimated how poorly our long book would perform and the sharpness of the impending selloff. We have always guided that the volatility of the fund will be broadly in line with the market but market volatility shot up to levels never seen before. These levels of volatility were not acceptable for the fund both from a reporting and risk management point of view so we reduced gross exposure quickly and considerably as seen in the charts below.

Exhibit 1: ARFF net exposure in Q1 2020



Source: Odey unaudited internal data.

Performance

-17.5% Monthly performance

-24.7% Year-to-date performance

-5.0% CAGR since inception

These figures refer to the past. Past performance is not a reliable indicator of future results.

Fund details[1]

£ I Class	77.89
£ A Class	81.30
$ I Class	81.35
$ A Class	86.91
€ I Class	76.47
Fund Size	£44 million
Strategy AUM	$604 million
Fund Inception	30 Nov 2015
Class Inception	30 Nov 2015
Fund Type	Irish ICAV QIAIF

Fund Managers

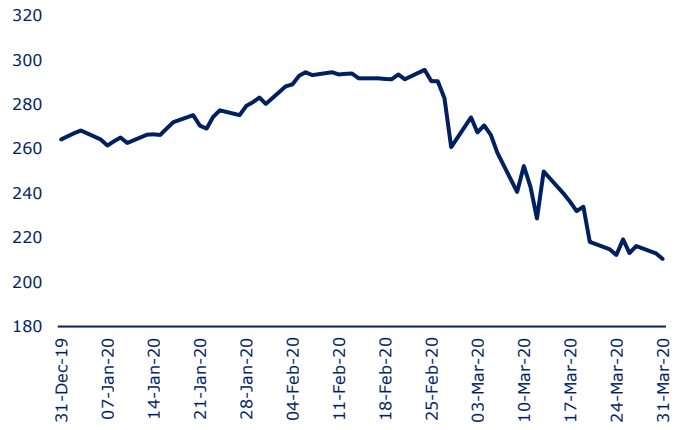
James Hanbury

Jamie Grimston

For full bios visit odey.com

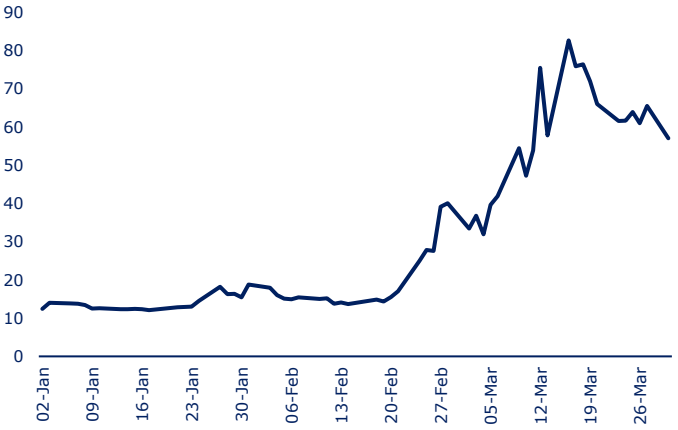
Source: All sources, unless otherwise stated, are Odey internal unaudited data and refer to the £ A share class. All data shown as at 31 March 2020. [1]U.S. Bank Global Fund Services (Ireland) Limited and Bloomberg, calculation on a NAV basis with net income reinvested.

Exhibit 2: ARFF gross exposure in Q1 2020



Source: Odey unaudited internal data.

Exhibit 3: VIX index Q1 2020



Source: Odey unaudited internal data.

As the sell off progressed we then started reducing some of our shorts, particularly those that had fallen a lot where we felt the risk return was no longer attractive. We also increased some of our shorts where we felt the deteriorating fundamentals have been underrepresented in their share price declines, particularly where they were exposured to non-investment grade credit. We cut our index shorts entirely after they made good contributions for the quarter: Russell 2000 (+1.28%), NASDAQ (+0.84%), DAX (+0.53%), MDAX (+0.95%) and Eurostoxx 50 (+0.28%). We are not normally such enthusiastic traders but stock and market levels have changed so rapidly in the past few weeks. On the long side having initially cut the book quite dramatically we started buying some cyclical names towards the end of the quarter. The names we were generally adding to are where we consider them to be high quality companies with good balance sheets where they should benefit from this crisis in a relative sense given the damage to weaker competitors. To be clear we have been buying companies where we believe they can benefit from a 'last man standing theme' if the crisis goes on longer than we expect or has worse second round effects. We also sold names that have traded well due to the benefit they derive from the crisis but we can't justify holding them due to how cheap alterative options have become; these include **Ubisoft**, **Tesco, Pearson**, and **Yara**.

Why did our long book perform so poorly?

A crucial point to make is that we believe our long book was oversold by the market over this short period of time. Much of the selling in the market was driven by technical factors of de-grossing or top down risk control drivers which contributed towards these 'inefficiencies' in the market. An easy stock example to give here was on a day when our biggest position (**Plus500**) put out a trading statement saying that it expected 'revenues and profitability for the full year to be substantially ahead of current consensus expectations' the shares were down 15% at one point on the day and closed down 5%. As the quarter progressed some of this 'inefficiency' in the market unwound but not much as we see it. This has created huge opportunity on a forward looking basis in our existing positions many of which we have added to and some new positions.

Importantly when we look at material impairments to intrinsic value on our long book due to recent events there are only two names which look obvious, our two offshore drillers **Valaris** and **Maersk Drilling**. Aside from these relatively small positions in the offshore oil drilling space we see that for much of our long book this crisis can prove to be a catalyst that helps increase market share, pricing power and margins over the medium term. Before going into some of these names on an individual basis these are some of the top down reasons for why our long book performed so poorly relative to the market.

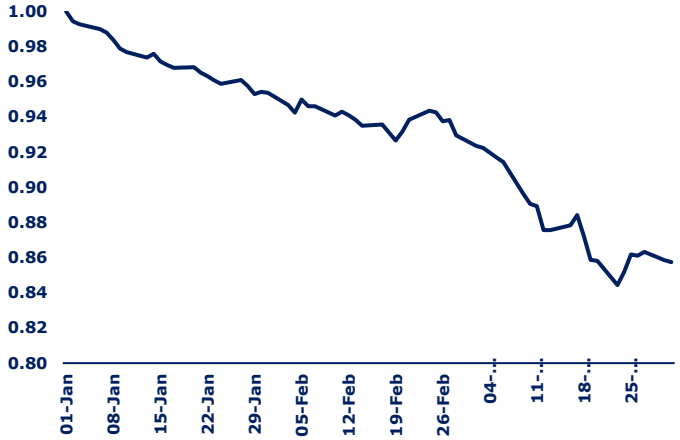
We did not foresee the extent of the COVID-19 crisis and the extent that the market would sell off.

We will give you our view on why the crisis could be good in the medium term for the strongest European airlines (and other positions hit in the quarter) but clearly had we foreseen the extent of lockdowns and flight cancelations we would have sold all of our airline positions (9.96% in aggregate as at the 20th Feb in **International Consolidated Airlines** and **Dart Group**). The same can be said about our cyclicals positions generally which were represented in the book through bank holdings, IWG and Arcelor Mital. We also did not expect ahead of time that most retailers would be forced to close and that most sporting events would be called off which is relevant for the gaming stocks. Although we trimmed these cyclicals quite early on in the selloff it was clearly not a good starting point for this crisis with our long book having exposure to airlines, tour operators, retailers and banks.

Our value bias was a drag on performance.

We have previously explained that the fund, driven by bottom up fundamentals, has been moving into value over the past couple of years. This positioning created a performance headwind over the quarter as seen by the chart. We will discuss in our macro views why our conviction on value having a multiyear period of outperformance has increased. Given how our value stocks performed in the quarter our net long exposure to 'value' has increased during the quarter as we added to some long names and also reduced some 'value' shorts which performed very well for us.

Exhibit 4: 14% underperformance of value vs growth in Q1 2020



Source: Bloomberg, MSCI, OAM.

Our net long domestic UK exposure hurt performance. Rather amazingly domestic UK stocks underperformed more over this COVID-19 quarter than they did over the post 2016 Brexit referendum sell off. This may well have been driven by technical reasons as the FTSE 250 was one of the few major domestic markets that did not have a short selling ban on it during the quarter (short selling was banned in France, Spain, Italy, Belgium, Austria and Greece). There may well have been some profit taking or hot money leaving after the good Q4 performance driven by the large Conservative election victory. To us the UK looks like one of the best positioned out of major western countries to pull out of the corona crisis. The UK virus data looks to be a week or two behind other European countries but is tracking in line with other economies that are now seeing improving trends. In Europe the inevitable disagreements has started over 'Coronabonds' and how the deficits will be funded with the normal dividing lines forming. In the US further fiscal recue plans will be complicated/political as we get closer to an election with Congress being controlled by the Democrats with a sitting Republican president. In the UK there is a large Conservative majority that can move quickly and decisively to kick start the economy. The only restraint they have is the currency which we believe will be strong if there is a credible path painted to recovery.

Exhibit 5: FTSE 250 performance vs the FTSE World ex UK (GBP) May 2016-Q1 2020

Source: Bloomberg, FTSE, OAM.

Small long oil positions were impaired with the oil price down 65.5% in the quarter. Valaris and **Maersk Drilling** cost the fund -4.86% and -1.37% respectively but these were partially offset by two oil shorts **Matador Resources** and **Tullow** which contributed +0.97% and +0.51%. The decision by Saudi Arabia to flood the oil market with supply at a time of low demand meant there was a collapse in the spot oil price which will undoubtedly challenge the balance sheets of both Valaris and Maersk Drilling. Although not our base case, there is a more bullish scenario for offshore oil, and potentially these stocks. This would occur if the oil price collapse proves terminal for the majority of shale production due to increased difficulties in raising capital in the fossil fuel space. It is possible that a supply cut back occurs as demand recovers over the next few quarters and this would increase investment into offshore which has a much lower pre tax breakeven than onshore. At the time of writing the fund retains a circa 1.5% position in the offshore drillers in aggregate.

Our long book has a significant mid cap tilt vs the MSCI World Index

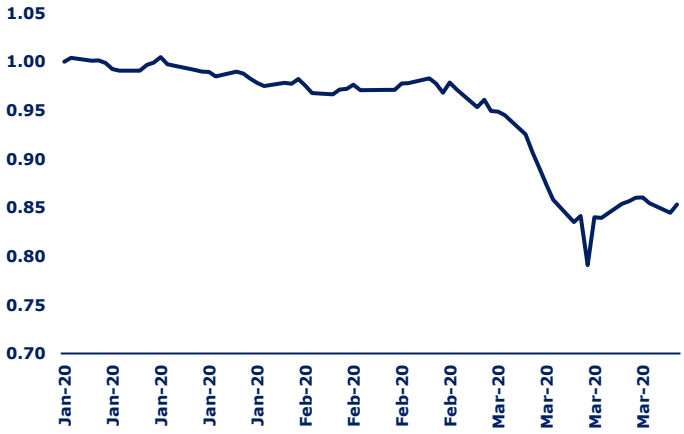
Exhibit 6: mid cap tilt in ARFF long book vs large cap tilt in ARFF short book

	Weighted average market cap as at 31st March (USD Bns)
Odey Absolute Return Focus Fund long book	8,346
Odey Absolute Return Focus Fund short book	22,686
MSCI World Index	**21,294**

Source: MSCI, Bloomberg, OAM.

This market cap tilt was detrimental in the quarter for the long book. On the short side we used Russell 2000 and Dax Mcap index futures to counter this divergence.

Exhibit 7: Small/mid cap underperformance in Q1 as illustrated by the circa 15% underperformance of the Russell 2000 vs the Russell top 200



Source: Bloomberg, Russell, OAM.

Many of our companies have a private company mentality. We believe that the biggest benefit of having companies run by owner operators is experienced in a difficult environment. No one will be working harder to cut costs, increase revenue opportunities, take market share and reduce the risk of unnecessary equity dilution than those CEOs with an ownership mentality. We have many of these type of managers in the portfolio with prime examples being Mark Dixon at **IWG**, Philip Meeson at **Dart Group**, Masayoshi Son at **Softbank**, Mike Ashley at **Frasers Group**, Michael O'Leary at **Ryanair** and Tim Martin at **JD Wetherspoon**. The downside in the short term is that often these business prioritise reduced disclosure for competitive reasons ahead of soothing market fears with more transparency. We are comfortable with and actually like this approach but it is clearly important that our investors understand this as well.

Long book names which performed poorly

What fills us with excitement on a forward looking basis is how cheap we feel our long portfolio is now. To a certain extent we have become credit analysts over the past few weeks as understanding liquidity, covenants and cash flows has been key. When we look at some of the ratings of our stocks it is not apparent that the market is doing the bottom up work here. These are some of the names that cost the fund the most performance in the quarter.

IWG, the global service office company, cost the fund -6.63% in the quarter. IWG is clearly a cyclical business but we believe the market is over estimating this factor and underestimating the extent to which it can reduce costs. The average tenant at IWG is on a 12 month contract so even if tenants do not turn up to work IWG can still collect the rent whilst forfeiting service revenues it might have collected. There will be bad debt risk as smaller tenants struggle but it helps that IWG collects rent in advance and holds onto c. 3 months rent as a deposit. Whilst the company closed centres in China for a few months, when the economy reopened the centres came back very quickly to 80% of their previous activity. IWG has almost all of its 3400 centres in separate special purpose vehicles which means in theory it can separately close down a centre or region with no implication for the parent company but in practice it means it is a lot easier to renegotiate rents (its largest cost) if circumstances change. This is one of the reasons that IWG generated cash throughout the GFC. Another reason is that it is very easy for IWG to reduce growth capex and significantly cut central costs. A poster child of QE driven growth has been the serviced office space, with Wework being a signature example. We believe this sector is strewn with negative cash flow, over leveraged businesses of which many will cease to exist due to the global recession. Given that IWG has low debt levels, good liquidity, the best network and operating metrics in the sector we believe it will come out of this crisis in a much stronger relative position. We believe that if IWG stopped growing completely (which would not be the optimum strategy) that it could generate close to $1bn of cash flow in a more normal environment; the current EV is c. $2.5bn. Mark Dixon the founder and CEO in March bought £5.5m of shares, we have also been adding to our position.

Viasat, the vertically integrated satellite business, cost the fund -5.31% in the quarter as the shares fell by more than 50%. The irony is that Viasat should be one of the more resilient businesses to the corona crisis and recent quarterly results beat expectations considerably. Yes 5% of profits is derived from providing inflight wifi to airlines globally, representing a short term risk. However, more than 60% of profits and almost 50% of fully funded backlog is derived from Government contracts, the US military being the largest. Residential broadband contracts, c. 35% of profits, in rural America are also seeing an uptick rather than a decline in demand. We are comfortable with the company's leverage and liquidity, even in a prolonged recession scenario. If anything, the current crisis could be helpful in terms of reducing the amount of new capital, and therefore competing bandwidth, coming into the sector. The often cited risk of abundant supply from Low Earth Orbit Satellites in particular, including Softbank's OneWeb and Elon Musk's backed StarLink (the service operation of SpaceX), has seen new funding dry up. Elon Musk recently hit a noticeably different tone when discussing SpaceX compared to how he discusses Tesla; *"we don't think Starlink is going to destroy all other satellites or something, definitely not. We just want to be in the "not bankrupt" category that is our goal*". Since those remarks, OneWeb entered Chapter 11 in late March. We don't believe the market fully understands the technological advantages of Viasat's powerful geostationary fleet, bringing much higher proven throughput and thereby meaningfully lower costs to supply. Viasat on the other hand continues to be on a healthy, profitable, trajectory. VSAT-3 will launch in 2021 and we think it will be very value accretive; before these launch related expenditure we see the shares trading on an EV/EBIT multiple of 10x. When one looks at the value when Viasat 3 capacity is full the shares trade closer to 1x EV/EBIT. We have added to our position.

Frasers (previously Sports Direct) cost the fund -2.52% in the quarter after the shares fell more than 60%. Clearly non-essential retail in a lock down is not a good place to be and revenues will be hit short term and there will have to be stock provisions taken. That said we think Frasers is more defensive than the market gives it credit for and this should also be an opportunity for it to take market share as weaker competitors fail. As an illustration in the past few days Debenhams has gone into administration for the second time in 12 months taking further capacity out. Firstly the business Frasers normally does has at least 20% of its sales online which is still open and operating. Frasers has good liquidity, a strong balance sheet and owns more c. £850m of properties with no debt against them. We believe Frasers has been one of the biggest beneficiaries of the government support. It may well have the highest business rates bill as a % of sales due to the large amount of properties it brought from the administrator with zero or little rent. The company will get a 12 month holiday on business rates which we estimate to be more than £100m. The furloughing of staff and deferral of VAT is also helpful for the cost base. As we come out of this downturn clearly it may take a while for demand to fully return and Sports Direct as one of the cheapest retailers on the high street has a defensive quality. When demand normalises we think the shares are on close to a 40% FCF yield when adjusting for the property. We have added to our holding.

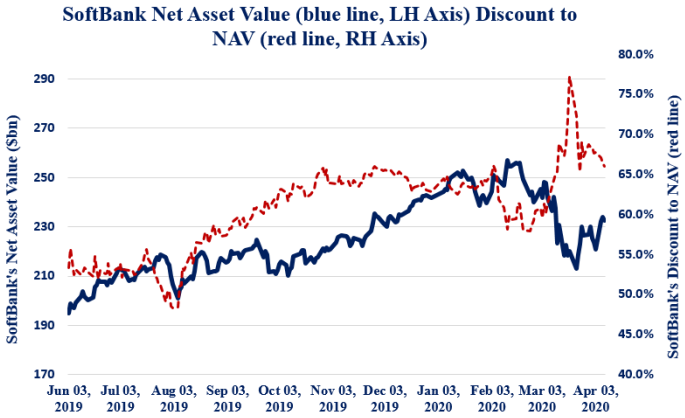
IAG, Ryanair and **Dart Group** cost the fund -3.76%, -0.25% and -2.90% respectively. COVID-19 obviously creates a horror show for the whole airline industry in the short term, but in these three names we believe we own the best balance sheets in the European industry. It was no surprise to us that Willie Walsh at IAG called publicly for airlines to look to their own resources before seeking government help. The top 5-6 players generate at

least 100% of European industry profits and this environment will see a combination of capacity reduction and nationalisation; both of these scenarios are good for the strongest operators where the competition will retrench and/or be unable to right-size their cost bases. We believe that on the other side of the valley that these companies will have better pricing power due to a more consolidated industry structure. On our numbers and before considering these potential benefits IAG trades on a normalised p/e of c. 3x , Dart on c. 6x and Ryanair on a c. 7x. Having reduced these names early in the sell-off we have been buying again at materially lower prices.

Playtech's (-5.82%) run of bad luck continued in the first quarter as China and Italy are two of its most important countries. Clearly the company had to warn on activity levels and its Snaitech franchise network in Italy was closed in line with the lockdown. Despite this the business is financially in a strong position with over 5 years of liquidity on the balance sheet if activity continues at low levels. The reality is this should be a short-term hit to earnings but the market has put the impact on a perpetual multiple. The remaining part of the business is in good health. Their main division, a B2B software business, does have some exposure to sport but the majority of its exposure is to online gaming which is a beneficiary of COVID-19. The financials divisions is also seeing record profitability with high market volatility. Most of the bookmakers are giving stress tests on their businesses assuming there is no sport until September whereas we believe there is a good chance that it starts to come back before then. We think Playtech is trading on a 2021 EV/EBITDA multiple of 4.3x and a FCF yield for 2021 of c. 20%. Playtech is a diversified growth business. We have bought more shares on the pull back.

Softbank, the Japanese holding company, cost the fund -1.78%. SoftBank remains deeply undervalued in our appraisal. Following SoftBank's share price move, Softbank's largest asset Alibaba now has a market value representing 160% of SoftBank's market cap and at one point in the quarter Softbank traded at a record wide discount to its NAV at about 75%. Meanwhile, SoftBank's net debt only represents only 18% of the gross assets and its key 'problem child' asset, Sprint, has had its merger with T-Mobile now cleared. SoftBank put out a statement during the quarter stating that it would be looking to sell down some of its holdings and buy back its own equity and debt. This is clearly a very value accretive transaction for it to do when the shares trade at such a large discount. Simplistically, the company is selling shares at market value and then buying them back via its holding company at below half price. More than 90% of Softbank's assets are in Alibaba, Arm Holdings, T-Mobile and Softbank Japan (the cash generative telco company). We added to our Softbank holding in the quarter, as did the founder and CEO of the company, Masayoshi Son.

Exhibit 8: Softbank NAV vs Discount to NAV



Source: Bloomberg, Company filings, Odey research.

Stars Group cost the fund -1.43% in the quarter. Stars Group is online only and although it does have some sports exposure the majority of its profits are linked to the Pokerstars brand which has seen downloads pick up dramatically since lockdowns have been in place. Stars Group also received confirmation that the proposed all-share deal with Flutter has received CMA clearance at phase 1 in the UK. This was earlier than consensus expected and the deal should now be completed by the end of June. The shares for the combined entity will trade on around 11x p/e post synergies but before ascribing value to their market-leading US business which adds 30-80% upside on our scenarios.

Cyclicals; we have been buying new positions or adding to high quality well capitalised cyclicals with the risk return looking extremely attractive both in an absolute sense and compared to other areas of the market. Whilst we fully accept that it may take a while for the output gap to close due to second order recessionary impacts these stocks look cheap even if we assume that demand only recovers to 80% of previous levels. Here is a table to illustrate the valuations of these companies even at this reduced level of demand.

Exhibit 9: Valuation of cyclicals with demand only recovering 80% in 2021

STOCK	VALUATION
Arcelor Mittal	3.5 x PE
Travis Perkins	8 x PE
Dart Group	7 x PE
IAG	6.5 x PE
Ryanair	9 x PE
TGS Nopec	4 x EV/cash EBIT

Source: Odey Research.

Companies that have done well operationally over the past quarter

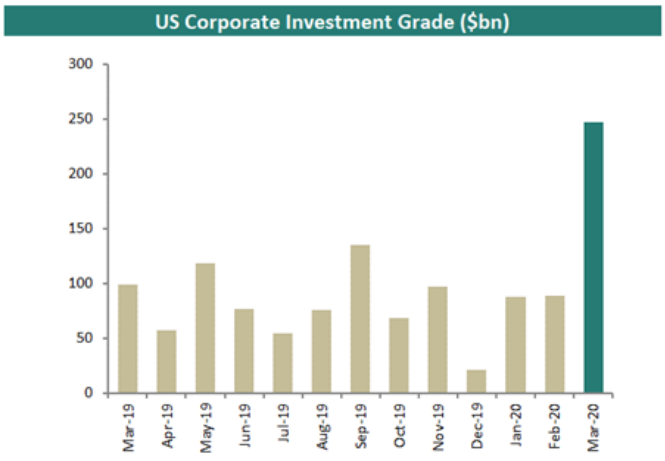
Plus500, the global CFD trading platform, proved what a good diversifier it is in the portfolio at times of high market volatility. The shares contributed +4.43% after it had two positive trading updates. Post the quarter end it reported that Q1 revenue was up 487% year on year as it won market share and had good KPI's across the board. The company should generate at least $500m of cash flow this year of which at least 90% will come back to shareholders in dividends or buybacks, this is meaningful when the company only has an enterprise value of c. $900m. Put another way the company is on a FCF yield to the enterprise value this year of 55% and although quarterly earnings can be volatile this is an underlying growth business that generates a high return on invested capital.

Both **Tesco** (+0.02%) and **Ubisoft** (+0.28%), the video games company, have benefited from the crisis but we sold the positions to recycle into other stocks during the quarter which we felt presented even better risk return. **Euronav** (+0.20%), which transports and stores oil in ships benefited from the steep contango in the oil price created by the huge short term supply/demand imbalance imposed by Saudi Arabia. We expect a dividend yield of c. 35% from Euronav this year in our base case, although conditions this year will be exceptional. **Serco** (-1.19%) de-rated in the quarter. Given Serco's high exposure to health and citizens services and other protected front line government services it will in our view end up at least in line with its initial guidance for this year. **Rovio** (+0.24%) the owner and operator of Angry Birds should benefit from 'stay at home'. **AO World** (-0.92%) had a surprising share price reaction in the quarter with the shares down c. 40% when we see it as being a strong beneficiary of the current environment. AO sells electrical devices and major domestic devices only online, which are the categories seeing the biggest surge in demand at the moment for countries in a lockdown/work from home situation. We see this environment as being more than a one or two quarter benefit for AO as in the UK we are seeing an acceleration of bricks and mortar capacity closing and as AO recruits more customers in this windfall it should also accelerate the structural shift to online.

How did our short book perform?

The short book performed extremely well in an absolute sense (+27.20%) and a relative sense (alpha of +11.83%), it just wasn't big enough relative to our long book. What was particularly pleasing about this performance was that c. 15% of our short book was in supermarkets in the US and Australia which was not helpful given how consumer behaviour, lockdowns and share prices panned out. As written above we did cut many of our short positions to zero in the quarter after we felt they were close to fair value had been reached . These are some names we covered to zero and their contribution in the quarter; **Compass** (+1.22%), **XPO Logistics** (+1.03%), **Cinemark** (+1.06%), **Allianz** (+0.95%), **Hertz** (+0.67%), **Matador Resources** (+0.97%), **American Homes 4 Rent** (+0.31%), **Best Buy** (+0.35%), **Tullow Oil** (+0.51%), **Kohls** (+0.28%), **Glaukos** (+0.22%), **Macy's** (+0.22%), and **Swatch** (+0.15%). Typically where we have retained or added to the shorts are for companies that are over leveraged, are non-investment grade or are exposed to non-investment grade debt. There are a huge amount of government and central bank packages supporting investment grade or equivalent corporates with debt guarantees or commercial paper. This is why we have seen such a huge spike in investment grade issuance in the month of March and we would expect this to continue. More highly leveraged or non-investment grade companies are caught in no man's land though as they will see their debt levels climb in this tough operating environment and they will struggle to repair their balance sheets without raising equity. We see private equity as having a particularly tough time and potentially some of the life insurance companies who have moved up the risk curve in the past few years in order to achieve greater yields on their assets and many are exposed to the energy space. Some of the shorts we have retained or added to that fit with this theme are **Partners Group** (+1.35%), **Aegon** (+0.93%), **Lamar** (+1.38%) and **Ashmore Group** (+1.35%). Our short book has become a lot smaller but many of the names we feel could still go down close to 100% if things deteriorated much from here, **Brookfield Property Partners** (+2.19%), and **Gogo** (+0.36%) being prime examples.

Exhibit 10: US corporate investment grade issuance



Source: Dealogic.

How is the overall book positioned now?

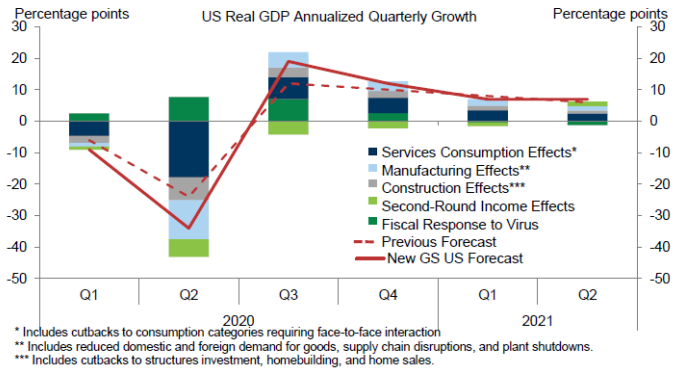
We are about 30% beta adjusted net long. On top of our idiosyncratic names we have a long bias to the domestic UK, value, cyclicals and strong businesses where we feel they will come out of this crisis in a stronger relative position. We have taken new positions in **Travis Perkins**, **Ibstock** and **Forterra** (the latter two are brick businesses) as they are cheap high quality businesses and we believe construction will be a key focus for the UK government to kick start the UK economy when shutdown ends. Although we are short life insurance we own banks with **Barclays** being our biggest position. The state of the banking sector is unrecognisable compared to 2008 with lower leverage, better liquidity, greater transparency, higher quality assets and regulators who want to help in a counter cyclical way. We see the risk of equity being raised as extremely low which seems to be in direct contract to what the price/book valuations are telling you. The gross exposure of the book is much smaller given market volatility and risk management and we are hedged on all our non UK positions back to sterling.

Macro

We have a base case for how things evolve economically, how we come out of this recession and how the COVID-19 will evolve but as ever the portfolio is being driven much more by bottom up opportunities that can do well in a range of outcomes. That said we are more positive than consensus on getting COVID-19 under control in western economies. There are some forecasts that assume 70-80% of the population have to be infected before you are out of the woods but so far China and South Korea provide a template for how you can slowly get the economy back to work whilst stopping a second wave. The rate of change of infections and new deaths in Western European economies is generally improving meaning that politicians can start thinking and talking about reducing lock downs. Although some models show exponential growth infecting the majority of the population it looks like the compounding effect of enforced lock downs, change in hygiene, change in behaviour, warmer temperatures, the susceptibility curve and more UV light has materially dampened the curve. The reason we feel the risks are over stated of a second wave having a similar disruption on economies when activity return to normal are two fold. Firstly there is a decent chance that by the summer there will be approved treatments given the amount of clinical 'shots on goal' that are being trialled. The near term front runners are the antivirals Remdesivir, Favipiravir and Hydroxychloroquine which are in large scale trials that are scheduled to read out this quarter. In addition three anti inflammatories that could moderate the Covid-19 disease are also in late stage trial; one of these should read out this quarter. If these treatments can cause a meaningful reduction in the progession to severe disease then COVID-19 can potentially be treated like a more normal flu as hospital capacity will be freed up and death rates will drop. Secondly if the economy goes back to work with 3-10% of the population with acquired immunity (by definition highest on the susceptibility curve) then the multiplier of the virus will drop quite materially.

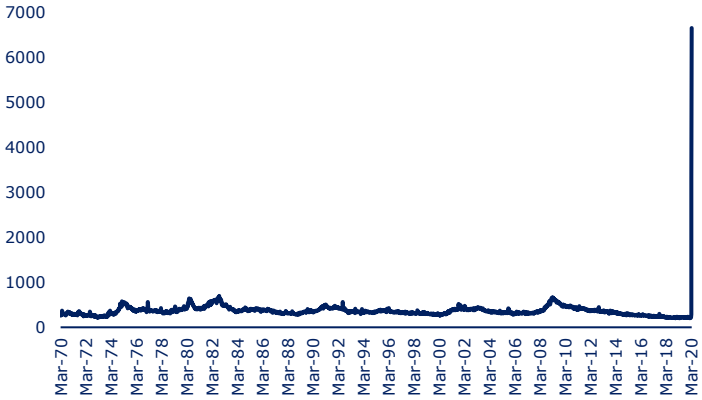
From an economic point of view we feel there are material differences between this recession and the one in 2008/9. The Great Financial Crisis was one which was bought on by the financial sector with systemic issues and it felt appropriate for governments to use monetary stimulus (QE) but at the same time impose austerity on economies. This recession has been created by governments and the drop in economic activity is a 100 year event challenging even the great depression of the early1930s and governments will feel fiscal rules can be broken in these exceptional circumstances to try and restore economic order.

Exhibit 11: 34% forecast fall in US GDP in Q2 20 and 6.5% fall in FY 2020 US GDP



Source: Goldman Sachs Global Investment Research

Exhibit 13: unprecedented rise in US initial unemployment claims



Source: Bloomberg, US Department of Labour.

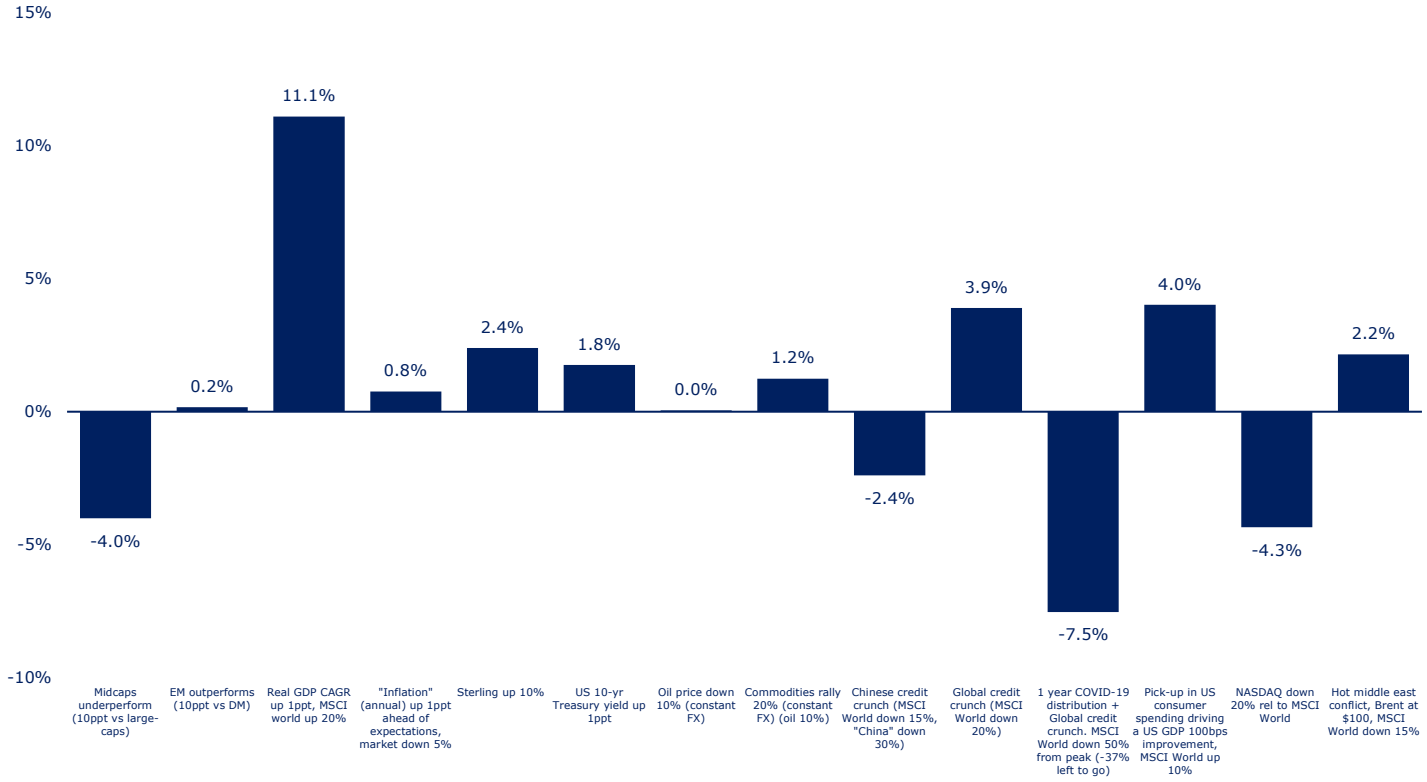
Extreme monetary policy has proven over the past few years to have become less effective and arguably counterproductive at stimulating demand. Compared to the GFC governments and central banks have been quicker and probably more effective at initiating stimulus programs. It feels highly likely that when lockdowns soften there will be further stimulus thrown at economies to try and get them to escape velocity and reduce second order impacts. This 'war time attitude' we are seeing means that fiscal deficits will balloon this year, be monetised by central banks and be reflective of governments and policy makers who would rather risk an inflationary/growth shock rather than a lasting recession. We would therefore expect a sharper recovery than consensus but clearly this is not without risks and alongside it we would expect some creative destruction with weaker companies falling by the wayside. The more creative destruction that takes place will clearly negatively influence the demand recovery but also create a more profitable environment for the survivors.

The scenario of escape velocity would likely see a material change in the leadership of the market as the secular stagnation and falling discount rates we have seen since the GFC would be replaced with higher nominal growth and rising discount rates. After 10 years of 'growth shares' (which benefit most from falling discount rates) outperforming value shares we could see a material reversal. We have built our portfolio on a bottom up basis but higher nominal growth playing out would be a huge tailwind for our relative and absolute performance. A world of materially higher inflation is generally bad for shares as they de-rate but if we can own good quality cyclical companies on already very low multiples then inflation would be our friend.

Conclusion

We are extremely disappointed and apologetic about the performance of the fund in the first quarter. The silver lining for us is that we feel we have seen limited impairment to intrinsic value in our long book yet the share prices are at odds with that view. Our focus on being in the strongest companies in the sector both financially and operationally has meant that we believe this crisis can be a great opportunity for many of our long positions. The upside we see in our long book and therefore the fund is almost unprecedented for us.

Exhibit 12: ARFF factor risks.



Note: Assumes full currency hedging; The information above is an estimation of the expected factor return; Odey may make investment decisions that are inconsistent with these views expressed in this communication. The chart above presents projections of future performance. These projections are based on a number of assumptions that may or may not prove to be accurate. Future performance is subject to a wide range of significant risks. As a result, there can be no assurance that the projections in the chart above will prove to be accurate.
Source: Bloomberg; Odey internal unaudited data; All data as at 08-Apr-20.

—

James Hanbury

Odey Absolute Return Focus Fund

ODEY
ASSET MANAGEMENT

Performance

	1-month	3-month	1-year	3-year	YTD	Since inception	CAGR since inc.
Fund	-17.5	-24.7	-17.7	-5.0	-24.7	-18.7	-5.0
MSCI Daily TR Net World	-10.7	-15.7	-5.9	6.7	-15.7	40.8	8.9
Relative	-6.8	-9.0	-11.9	-11.7	-9.0	-59.5	-14.0

DISCRETE YEARLY PERFORMANCE

1-year to	29 Mar 18	29 Mar 19	31 Mar 20
Fund	5.7	9.3	-17.7
MSCI Daily TR Net World	1.2	12.1	-5.9
Relative	4.6	-2.8	-11.9

MONTHLY PERFORMANCE SINCE INCEPTION

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	-4.6	-4.4	-17.5										-24.7
2019	8.5	-8.5	0.9	-5.0	3.3	-9.1	-5.1	1.5	0.6	8.0	4.0	12.4	9.4
2018	0.9	0.7	-1.0	7.4	4.9	0.3	2.1	-4.6	3.0	2.6	3.3	-9.3	9.8
2017	0.4	-3.8	-0.5	3.1	2.9	0.4	-1.4	9.9	-0.7	1.5	-3.0	-6.9	0.9
2016				-3.1	4.3	3.1	-1.4	-0.6	-1.2	-6.9	0.6	-5.8	-11.0

Fund details[1]

£ I Class	77.89
£ A Class	81.30
$ I Class	81.35
$ A Class	86.91
€ I Class	76.47
Fund Size	£44 million
Strategy AUM	$604 million
Fund Inception	30 Nov 2015
Class Inception	30 Nov 2015
Fund Type	Irish ICAV QIAIF
Comparators	Primary: Cash Secondary: MSCI Daily TR Net World GBP
Base Currency	£

Live fund dashboard

Get the latest fund information on the odey.com fund dashboard (registration required)

View dashboard on odey.com >

Top ten equities as percentage of NAV

	Strategy	Notional Exposure
Plus500	Long	21.1%
Stars	Long	10.5%
ViaSat	Long	10.4%
Ashmore	Short	-10.3%
BT	Long	10.0%
Partners Group Holding	Short	-9.5%
Playtech	Long	8.3%
SoftBank	Long	7.9%
IWG	Long	6.3%
Commonwealth Bank of Australia	Short	-5.3%

Statistics

	1-year	3-year	Inception
Fund annual s.dev.	27.2	21.5	19.5
Index annual s.dev.	15.1	12.2	11.5
Alpha	-1.0	0.0	-0.6
Beta	0.5	0.6	0.4
Correlation	0.3	0.3	0.3
Sharpe Ratio	-0.5	0.0	-0.2
Information Ratio	-0.4	-0.2	-0.7
Tracking Error	27.7	20.8	20.3

Important information

These figures refer to the past. Past performance is not a reliable indicator of future results.

This document is a marketing communication. Before subscribing please read the prospectus, available at odey.com. The performance calculation shown is based on the GBP share class. If the past performance is shown in a currency which differs from the currency of the country in which you reside, then you should be aware that your performance may increase or decrease as a result of currency fluctuations.

Fund team and contact details

FUND MANAGERS

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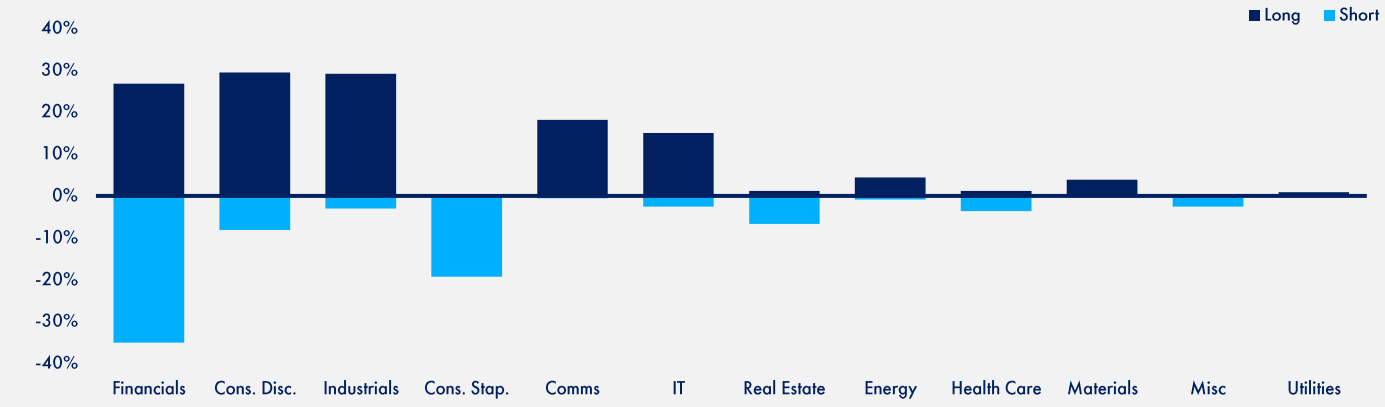
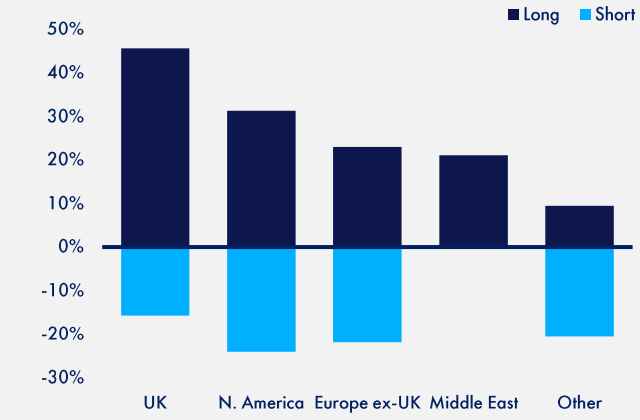
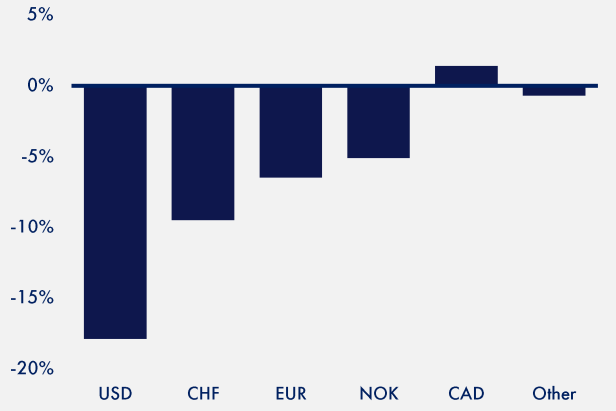
Equity exposure by sector



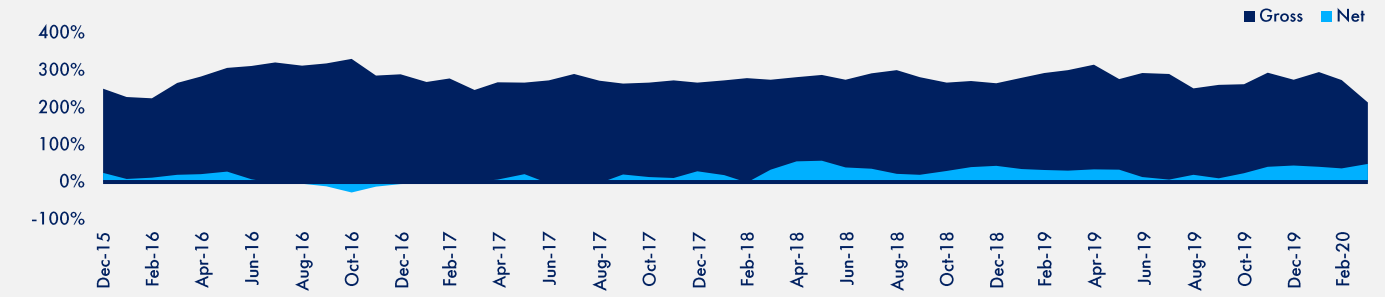
Equity exposure by geography



Non-base currency exposure



Equity exposure



ASSET ALLOCATION AS PERCENTAGE OF NAV

Long equity	130.6
Short equity	-82.3
Net equity	48.4
Gross equity	212.9
Foreign exchange	40.4

Corporate debt	12.4
Government bond	-2.8
Government bond – emerging market	0.1
Commodity	2.4

Note: Equity exposure includes all equity related instruments. Currency exposure shows non-base currency through forward currency contracts and portfolio holdings. Past performance is net of fees and other charges. Commentary is provided on a quarterly basis. Equity exposure as classified by GICS.
Source: All sources, unless otherwise stated, are Odey internal unaudited data and refer to the £ A share class. All data shown as at 31 March 2020. [1]U.S. Bank Global Fund Services (Ireland) Limited and Bloomberg, calculation on a NAV basis with net income reinvested.

Investment objective and policy

The Odey Absolute Return Focus Fund ('The Fund') aims to achieve long-term capital appreciation and a positive absolute return on a 12 month rolling basis independent of market conditions. Capital is at risk and there is no guarantee that a positive return will be delivered over any one or a number of 12 month periods. The fund will seek to achieve its investment objective by investing in, or taking exposures, using both long and short positions to a range of asset classes worldwide. The Fund will primarily invest in equity and equity-related securities.

APPROACH

The Fund is a concentrated, return-seeking global equity-long short strategy. It harnesses the experience and judgement of James Hanbury, his investment team and the significant research resource at Odey. The portfolio managers are opportunistic in scope and, while not a prerequisite, are attracted to owner-managed companies and situations where, in their view, the perceived risk is higher than the actual risk, which often occur during reorganisations or complex restructurings. The team invest for the medium to long term though continuously resize positions to ensure the portfolio remains focused on their highest conviction ideas. The Fund is built without formal reference to an index and typically contains 30-50 positions both long and short with a higher concentration in the top 10 positions.

RISK CONSIDERATIONS

The Fund has considerable latitude over its allocation both long and short equities and it may employ leverage and own sophisticated instruments such as futures and options. The Fund may hold a large weighting in a small number of investments and may therefore be subject to larger than normal swings in its value. The performance stream is likely to be volatile and the Fund is suitable only for investors who have a long time horizon (>5 years) and can tolerate high risk. Investors may not get back all the money invested and an investment in this Fund should only form part of an investor's total portfolio. Investors should discuss the suitability of this Fund with their professional adviser.

Investor information

Share classes	I (€, £, $)[2], A, B, C (€, £, $)	**Minimum investment**	£1,000,000 or equivalent in $ & €
Share class hedging	Non-base currency share classes are hedged	**Dividends**	Income accumulated and reinvested on behalf of shareholders
Trade date (T)	1st of month	**Administrator**	U.S. Bank Global Fund Services (Ireland) Limited
Valuation	Close of business T-1	**Depositary**	SMT Trustees (Ireland) Limited
Front end fee	Up to 5%	**Auditor**	Deloitte & Touche, Ireland
Annual management fee	I & C 0.75%, A 1.25%, B 1.00%	**Price reporting**	Prices published daily on www.odey.com, Bloomberg and by other third party data providers.
Performance fee basis	I & A 20%, B 18%, C 15% of the increase in the value per share of the Fund between the beginning and the end of the year or end of lock up period. Fees crystallise annually (31-Dec) or at the end of the lock up period. Losses carried forward.	**ISIN**	£I IE00BYQ96119[2], $ I IE00BYQ96226[2], €I IE00BYQ96002[2], £A IE00BD2MF988, €A IE00BD2MF871, $A IE00BD2MFB05, £B IE00BD2MFD29, €B IE00BD2MFC12, $B IE00BD2MFF43, £C IE00BD2MFH66, €C IE00BD2MFG59, $C IE00BD2MFJ80
Anti-dilution fee	On all orders	**SEDOL**	£I BYQ9611[2], $I BYQ96222[2], €I BYQ96002[2], £A BD2MF98, €A BD2MF87, $A BD2MFB0, £B BD2MFD2, €B BD2MFC1, $B BD2MFF4, £C BD2MFH6, €C B D2MFG5, $C BD2MFJ8
Exit fee	Up to 5% if outside redemption period (A 1-month, B 1-year, C 3-year)		

Important information

This is a marketing communication and it is not intended to be viewed as a piece of independent investment research.

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Note: [2]I share class is closed to further investment.

Glossary of terms

Please refer to the fund's prospectus for detailed information. Some terms listed are not relevant for every fund. This document is intended for use by individuals who are not familiar with investment terminology. Please contact Odey if you need an explanation of these terms.

Absolute return: The return that an asset/fund achieves over a period of time looking at the appreciation or depreciation (expressed as a percentage) that the asset/fund achieves.

Acc/Accumulation class: A share class which accumulates and reinvests net investment income and net realised capital gains and does not pay dividends.

Active currency exposure: The percentage of a fund's assets which are invested in a particular currency.

Administrator: The specialist entity who maintains the register of shares, provides fund valuation and accounting services.

AIF: Alternative Investment Fund as regulated by the Alternative Fund Management Directive.

Alpha: A measure of performance on a risk-adjusted basis, often seen as the active return on an investment.

Annual management fee: The fee payable by the fund to the investment manager to cover expenses associated with running the fund.

Anti-dilution fee/levy: A fee levied by a fund on investors buying/selling shares to protect current shareholders from the dealing costs incurred when paying out or taking in clients.

Asset class: A group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations. The three main asset classes are equities (or stocks); fixed income, or bonds and cash equivalents, or money market instruments.

Base currency: Each fund has a base currency and this is the currency which the fund uses to calculate its net asset value.

Beta: A measure of the fund's volatility in comparison to its benchmark.

CAGR: Compound Annual Growth Rate (CAGR) is the rate at which the fund/benchmark has grown on an annual basis to reach the current performance since inception.

Capital growth/appreciation: Capital growth is measured on the basis of the current value of the asset or investment, in relation to the amount originally invested in it.

Commodity: A physical substance (such as food, grain, metal) which investors buy and sell through futures contracts.

Comparative/Index/Benchmark (e.g. MSCI): A comparator the fund has used to compare its performance to or for its performance fee calculation.

Contribution: Used to explain the breakdown of a fund's absolute performance.

Correlation: A statistic that measures the degree to which two securities move in relation to each other.

Dealing: Arranging the sale and purchase of shares in a fund.

Delta: A ratio comparing the change in the price of an asset to the corresponding change in the price of its derivative.

Derivatives (futures, options, swaps and contracts for difference): A financial contract based on an underlying asset or financial index with its value determined by fluctuations in the underlying asset/index. Derivatives may be used to manage risk in portfolios, for greater flexibility to lower costs, to gain leverage and to enhance returns.

Dist/Distributing Class/Inc/Income: A share class which pays dividend distributions.

Dividends: A sum of money paid regularly (typically annually) by a company to its shareholders out of its profits (or reserves).

Equity/Security: The percentage of the fund that is currently invested in the equity market.

Exposure: The amount invested in a particular type of security, market sector or industry, usually expressed as a percentage of the total portfolio holding.

Fixed income security: A type of investment which pays out periodic income of a fixed amount on a fixed schedule e.g. a bond is a fixed-income security.

Forward currency contracts: A foreign exchange contract that locks in the exchange rate for the purchase or sale of a currency on a future date.

Front end fee: The initial fee/sales charge applied at the time of an initial purchase of an investment.

Fund: Odey Absolute Return Focus Fund.

Global Industry Classification Standard (GICS): A standardised classification system for equities developed jointly by Morgan Stanley Capital International (MSCI) and Standard & Poor's.

Government bond: A bond issued by a government to support government spending, often issued in the country's domestic currency.

Gross: The total rate of return on an investment before the deduction of any fees or expenses.

Hedged class: A share class giving exposure to assets denominated in foreign currencies without the currency risk of the fund's base currency. Techniques and instruments are used to limit the currency risk between the hedged class and the base currency.

Hedging: Hedging against investment risk means strategically using financial instruments in the market to reduce the risk of adverse price movements.

High water mark: The highest value that an investment fund or account has reached over a specified period of time.

Information ratio: A measure of the fund's returns above the returns of the benchmark to the volatility of those returns.

Investment Manager: Odey Asset Management LLP.

ISIN: An ISIN (International Securities Identification Number) uniquely identifies a security.

KIID: A KIID (Key Investor Information Document) must be provided to anyone who invests in a UCITS.

Leverage: An investment strategy of using borrowed money and/or financial instruments to increase the potential return of an investment.

Long: The practice of buying securities with the expectation the asset will rise in value.

NAV: The NAV (net asset value) of a fund is the value of the fund's assets less its liabilities. NAV per share is the value per share and is calculated by dividing the total NAV of the fund by the total number of shares.

Net: The total rate of return on an investment after the deduction of any fees or expenses, including annual management fee and performance fee where applicable.

Notional Exposure: The total value of a fund's leveraged assets.

Ongoing Charges Figure (OCF): A figure showing all annual charges and other operational expenses payable by a fund.

Performance attribution: A set of techniques that are used to explain why a fund's performance differs from a benchmark.

Performance fee: A fee payable to the investment manager on returns that, subject to a High Water Mark, the fund achieves either in absolute terms or relative to a performance fee benchmark. Please refer to fund prospectus for details.

Portfolio: A group of financial instruments such as shares, funds, bonds, cash and cash equivalents held by an investor and managed by a financial professional.

Proprietary currency positions: Foreign exchange contracts entered into by the fund for investment rather than hedging purposes.

Quoted securities: A quoted or listed security is a financial instrument that is traded through an exchange, such as the LSE, NYSE or Nasdaq.

Rebased method: Used to illustrate a fund's performance against comparative benchmark on a chart whereby they both start at the same point.

Rel/Relative: Calculates how much the fund has out/underperformed its comparative benchmark.

SEDOL: A SEDOL (Stock Exchange Daily Official List) is a unique number assigned by the London Stock Exchange and used in the UK and Ireland to identify securities.

Share class: A designation applied to a specified type of security such as shares in a fund. Each share class has its own rights.

Sharpe ratio: A measure for calculating risk-adjusted performance; the higher the ratio, the better risk-adjusted performance.

Short: The practice of selling borrowed securities with the expectation that the asets will decrease in value whereupon they will be repurchased and returned to the lender.

Since inception/Since inc.: Inception date is the date on which the fund launched.

Sortino: A variation of the Sharpe ratio that differentiates harmful volatility from total overall volatility by using the asset's standard deviation of negative asset returns, called downside deviation. The Sortino ratio takes the asset's return and subtracts the risk-free rate, and then divides that amount by the asset's downside deviation.

Standard deviation/Sta. dev.: Measures the degree of variation of returns around the mean (average) return. When applied to the annual rate of return, it shows the historical volatility.

Statistics: Statistical measurements used to analyse historical fund data such as performance, volatility etc.

Strategy AUM: The total assets of the funds managed by the Investment Manager to a similar investment mandate.

Ten-year adjusted basis: Shows any exposure to Fixed Income, Bond Futures or Interest Rate Futures on a 10-year duration basis.

Tracking error: A risk measure showing how closely a fund's performance follows a particular benchmark.

Treynor: Treynor ratio, also known as the reward-to-volatility ratio, is a metric for returns that exceed those that might have been gained on a risk-less investment, per each unit of market risk.

UCITS: Undertakings for the Collective Investment of Transferable Securities (UCITS) is an EU regulatory framework creating a harmonized regime throughout EU for the management and sale of funds.